



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

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GOVERNOR

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STATE TREASURER

DATE: December 3, 2015

TO: House and Senate K-12 Appropriations Subcommittees

FROM: Nick A. Khouri, State Treasurer

SUBJECT: First Quarterly Report to the Legislature on Deficit Districts

OVERVIEW

On July 7, 2015, the Governor signed into law PAs 109-114, giving the Department of Treasury additional financial authority and responsibilities over K-12 school districts, intermediate school districts (ISDs), and public school academies (PSAs).

Pursuant to PA 111, (MCL 380.1220(2)(b)), the State Treasurer shall submit quarterly interim reports to the Legislature concerning school districts, ISDs, and PSAs that are subject to periodic financial status reports or are under an Enhanced Deficit Elimination Plan (EDEP). Moreover, on a quarterly basis, the State Treasurer shall publicly present those quarterly interim reports to the appropriations subcommittees of the Legislature responsible for K-12 state school aid appropriations. This is the State Treasurer's first quarterly report to the Legislature.

PERIODIC FINANCIAL STATUS REPORT

Pursuant to PA 109 (MCL 380.1219(3)) the State Treasurer is required to determine whether or not "potential fiscal stress" exists within a school district, ISD or PSA; that an operating deficit may arise within a school district, ISD, or PSA during the current school fiscal year or the following two school fiscal years; or that a school district, ISD or PSA may be unable to meet its financial obligations while also satisfying the districts, ISDs, or PSAs obligations to provide public education services in a manner that complies with state law. If the Treasurer so determines, he then declares that potential fiscal stress may exist.

Under the new law, the State Treasurer in February 2016 will be able to declare the potential for fiscal stress within a district, ISD, or PSA. At that time, Treasury will have received Financial Information Database (FID) from the Center for Education Improvement and Performance (CEPI) and will have applied various fiscal stress indicators to FID data. Prior to declaring a district, ISD, or PSA is in potential fiscal stress, Treasury will first contact the affected school entity, its ISD and its legislative representatives.

PRELIMINARY REVIEWS

Pursuant to PA 110 (MCL 141. 1544), Treasury shall conduct a preliminary review to determine the existence of probable financial stress for all school districts subject to a Deficit Elimination Plan (DEP) that provides for the elimination of deficit over a period exceeding 5 years.

As determined by statute, the following 11 school districts are subject to preliminary review by the Emergency Loan Board (ELB) beginning January 2016:

Bridgeport Spaulding Community School District
Clintondale Community Schools
Flint Community Schools
Hazel Park City School District
Lincoln Consolidated Schools
Mackinaw City Public Schools
Mt. Clemens Community School District
New Haven Community Schools
Southgate Community School District
Vanderbilt Area Schools
Westwood Community Schools

If the ELB determines that fiscal stress is evident, then the Governor must appoint a review team to determine whether a financial emergency does or does not exist. If the Governor confirms that a financial emergency does exist, then the school district must select one of the following options:

- Consent Agreement
- Emergency Manager
- Neutral Evaluation
- Chapter 9 Bankruptcy

ENHANCED DEFICIT ELIMINATION PLANS

Pursuant to PA 111 (MCL 380.1220(5)), a school district, ISD, or PSA currently operating under a DEP which has not completely eliminated its debt within 5 years after the initial DEP was submitted to the Michigan Department of Education (MDE) will now be required to submit an EDEP to Treasury.

As such, in addition to being subject to preliminary reviews, each of the above-mentioned 11 districts are also subject to EDEPs. Regardless of whether or not the ELB determines that fiscal stress is imminent, the district will be subject to Treasury oversight.

Section 380.1220(5) also provides that if based on information included in a periodic financial status report, a DEP, or a request by the Superintendent of Public Instruction, Treasury may determine that a district, ISD, or PSA is “subject to rapidly deteriorating financial circumstances, persistently declining enrollment, or other indicators of financial stress likely to result in recurring operating deficits or recurring financial stress.” If this determination is made, then

Treasury may require the district, ISD, or PSA to submit an EDEP in the form and manner determined by the department.

On October 27, 2015, Treasury, based upon information in a DEP, determined that Albion Public Schools is subject to rapidly deteriorating financial circumstances, persistently declining enrollment and other indicators of financial stress likely to result in recurring operating deficit or recurring financial stress. The district was notified that effective immediately oversight was transferred from MDE to Treasury.

After meeting with Albion Public Schools, its ISD, community stakeholders, and its representatives in the Legislature, Treasury contracted with an independent firm to create a district budget. The department presented the budget to the Albion Board of Education on November 22. The district will be required to submit an EDEP to Treasury in January 2016.

Additional questions about this report should be directed to Paul G. Connors, Office of School Review and Fiscal Accountability, at connorsp@michigan.gov or (517) 241-1186.